

## URBAN DEVELOPMENT PROGRAM

(GY-0041)

### EXECUTIVE SUMMARY

**BORROWER AND GUARANTOR:** Government of Guyana

**EXECUTING AGENCY:** Ministry of Local Government and Regional Development (MLGRD)

**AMOUNT AND SOURCE:**

IDB:	US\$20 million (FSO)
Local counterpart funding:	US\$ 5 million
Total:	US\$25 million

**FINANCIAL TERMS AND CONDITIONS:**

Amortization period:	40 years
Disbursement period:	5 years
Interest rate:	1% first 10 years,
Inspection and supervision:	1%
Credit fee:	0.5%

**OBJECTIVES:** The chief objective of the Urban Development Program (UDP) is to improve infrastructure and basic services provision for the urban population of Guyana. More specifically, the program will seek to: (a) support reforms to address the institutional constraints affecting Guyana's capacity to finance, operate, maintain and expand urban infrastructure and services on a sustainable basis, and (b) finance the rehabilitation of infrastructure and the reestablishment of municipal services in the country's six urban municipalities.

**DESCRIPTION:** The UDP here presented recognizes the critical importance of rehabilitating urban infrastructure and services, and thus proposes to finance these needed investments in Guyana's urban centers. However, the UDP emphasizes that such investments must be accompanied by efforts to promote the sustainable operation of services and the maintenance of the infrastructure works; this can only be achieved through a number of changes at the municipal and central levels of Government. Therefore, to improve sustainability and help municipal authorities carry out their legally-assigned roles in basic service delivery, the proposed program will finance actions to build municipal capacity and revenues, strengthen the relevant central ministries to better support and supervise local entities, and define more clearly the lines of responsibility and accountability between the Central Government and the municipalities. The project's two components are:

- a. **Technical assistance and institutional strength-**  
**x urban municipalities and Central Government agencies**  
) : This component will finance:
  - i. Technical assistance and training for financial management and planning; modernizing local

reduces; and developing own-source revenue generation

ii. Strengthening Central Government capacities to protect local government revenues and autonomy. It will consist of:

1. Property tax assessment reform  
The UDP will finance the modernization of the property tax system by completing a comprehensive revaluation of property in the target cities. Working with the Valuation Division of the Ministry of Finance, the UDP would undertake a series of activities in order to create a self-sustaining assessment organization that can conduct economically, timely assessments and the collection of taxes in the target cities of the UDP.

2. Strengthening the MLGRD and mechanisms for intergovernmental transfers (US\$0.4 million): The component will finance the provision of consulting services to assist in further defining the roles of the central, regional and municipal levels of Government, designing and adopting predictable and transparent intergovernmental Government transfers to municipalities, such as cost-sharing, transfers and co-financing. In addition, the component will support municipal level training efforts, training in municipal management. It will be provided to the MLGRD, so that the ministry can provide technical and management support to the town committees during the life of the program.

3. Strengthening the PEU (US\$1.3 million): The component will support the Program Executing Unit (PEU) in the MLGRD, an consulting firm will be contracted to manage the execution of the program, as well as advise and train PEU staff. Program funds will also be used to pay for part of the PEU staff and equipment purchases and a vehicle.

b. **Investments in the rehabilitation of urban infrastructure and services (US\$19 million):** This component will finance a series of subprojects in the six municipalities, aimed at improving urban services infrastructure. Investments will include the rehabilitation and maintenance of the municipal roads and public works, the reconstruction of commercial municipal markets, abattoirs and stables (or wharves), as well as the rehabilitation of street lighting systems and the municipal governments' buildings.

To best integrate the infrastructure rehabilitation with the implementation of the parallel policy reform and strengthening measures, the infrastructure investments will be carried out in two phases. During the first phase, emphasis will be placed on those investments that will provide for synergies between the program's institutional strengthening component and the infrastructure investments. Here, the project will focus on works linked to immediate revenue adjustments, as in the case of markets and to those investments which have immediate impact, such as improved streetlighting and drainage. Road maintenance and repair works, on the other hand, will be emphasized during the program's second phase, in order to coincide with the completion of the property tax revaluation and the introduction of a new property tax assessment base.

**RELATIONSHIP OF  
THE PROJECT TO  
THE BANK'S  
COUNTRY AND  
SECTOR STRATEGY:**

The operation fits well within the Bank's country strategy in Guyana C which emphasizes public sector modernization and improvements in financing and resource allocation mechanisms C in that it finances infrastructure rehabilitation only in the context of modernization of public sector functions and capabilities at the municipal and the central levels.

It incorporates sector best practices in that it emphasizes: (a) the strengthening of municipal revenues, through the development of own-source revenues as well as inter-governmental transfers; (b) the improvement of financial management and planning at local government levels; (c) changes in the revenue sharing arrangements between levels of government, and (d) efforts to make local government more responsive to community needs and a more efficient and transparent provider of services.

**ENVIRONMENTAL/  
SOCIAL REVIEW:**

The environmental impact of the UDP will be strongly positive. The projects to be financed will mitigate or eliminate the negative environmental impacts of deteriorated infrastructures, and will improve or eliminate unsanitary conditions in markets, abattoirs and small-scale waste collection and disposal systems. Ultimately, the UDP will contribute to attracting new economic activities to the cities and foster urban development in the coastal area. Most of the negative impacts expected from UDP projects are predictable, temporary, localized and can be mitigated through the application of standard measures in engineering design, procurement construction, operation and maintenance. An environmental management system is included in the program's operating regulations.

Subproject selection has been based partly on an intensive process of stakeholder consultations through meetings with the municipal authorities and local community groups, the regional administration authorities and the Central Government. The preliminary list of investments for both phases of program execution was analyzed to ensure its environmental viability. Final subproject selection and design, now under way, is incorporating similar institutional and environmental appraisal criteria, in order to ensure continuous stakeholder ownership and support for the planned investments, as well as their environmental feasibility. The program also includes resources for social marketing efforts that will encompass not only maintenance of the infrastructure investments, but also the linkages between public service delivery and the payment of taxes and user fees.

**BENEFITS:**

The most immediate benefits will derive from the **infrastructure rehabilitation component**. Infrastructure and municipal services will be improved in the six urban centers, to the benefit of both urban dwellers and commuters from the adjacent coastal areas. While these investments do not specifically target low-income groups, it is expected that many of them C especially markets, drainage rehabilitation, and sanitation works C will particularly benefit lower income segments of the urban population. The improvement of a range or urban services will enhance the credibility of both

local and central government and, in turn, reinforce the benefits of the program's capacity building and reform initiatives listed below.

The **institutional strengthening and technical assistance component** will have important and interrelated benefits that will contribute to creating a stronger, more effective local government:

a. The urban centers will have a stronger revenue from a more predictable transfer mechanism from central , especially, increased own-source revenues. The reform, in addition to improving the revenue stream, other benefits, among them: (i) a consistent approach of municipal property based on uniform criteria, as professional administration of the process will encourage , reducing incentives for tax evasion, and (ii) a approach to property valuation in the major property the eventual application of the valuation system on a will benefit the development of the property and ts in Guyana.

b. Town councils will have improved administrative capacities, the result, among others, of adopting procedures for financial management, reporting and training, especially in financial management; improved ities and equipment; as well as better guidance and m the MLGRD.

c. The urban population will be better informed ll participate in the decision-making from capital s and local planning, in general. More transparent and reporting will allow for greater accountability d officials and instill a stronger sense of community

d. Maintenance of investments will improve given e systems and enforcement mechanisms for fees and rate ll as collection. Strengthening of the capacity of dudget operating and maintenance costs will also mprove maintenance levels.

e. In the longer term, increased municipal revenue introduction of adequate financial administration and ures, accompanied by improved municipal management and could position the municipalities to access Guyana's al and capital markets.

#### **RISKS:**

Project risks stem chiefly from the comparatively weak degree of development and consolidation of institutional structures in Guyana.

First, the project faces the possibility that implementing capacities are inadequate to execute the different infrastructure investments with the quality required and in a timely manner; available supervision and inspection capacities could also prove to be insufficient. Project design addresses these risks, through the "bundling" of works during the bidding process to achieve sizable packages of investments. This will provide the needed incentive for regional and extra regional construction companies to participate in the project.

A second risk faced by the UDP is the possibility that the municipalities fail to properly operate and

maintain the rehabilitated infrastructure. This risk is addressed by the program's institutional strengthening component, in conjunction with the subproject financing requirements. Institutional strengthening activities will foster the municipalities' financial administration and planning skills, thereby introducing the instruments necessary to assess short and medium term funding requirements for all investments to be undertaken.

The successful implementation of changes in the property tax regime represents another area of risk.

Given the politically sensitive nature of reassessing the tax base, revaluating properties on a large scale and increasing absolute property tax charges, the authorities might be reluctant to move as fast as the program anticipates. However, both central ministries and municipalities have expressed enthusiasm for this initiative during program preparation, recognizing its potential benefit for both levels of Government. Progress in the revaluation exercise will be monitored closely throughout implementation and especially at midterm.

Similarly, delays by Government in identifying and establishing designated sources for municipal financing, or adopting a revenue sharing mechanism, could affect the municipalities' income perspectives and delay in turn the stabilization of their financial position. Government has expressed its willingness to open the dialogue on these issues and the UDP assigns resources to support the process. In addition, the program execution mechanism addresses these risks by staging the civil works and linking the stages to measurable advances in the necessary reform efforts, on an annual basis and particularly at midterm.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

Conditions precedent to first disbursement:

- a. Establishment of necessary bank accounts (see
- b. Contracting of the management consulting firm and e PEU (see paragraph 3.4).
- c. Presentation of final text of the program's ations (see paragraph 3.12).

Conditions during execution:

- a. Midterm review benchmarks, prior to executing estments (paragraphs 3.22 and 3.23).
- b. Contracting of minimum necessary staff at MLGRD year (paragraph 3.4).

**POVERTY  
TARGETING:**

No.

**EXCEPTIONS  
TO BANK POLICY:**

None.

**PROCUREMENT:**

International prequalification and competitive bidding procedures will be required for the

contracting of civil works when the value of the contract exceeds US\$1 million. ICB procedures will also be required for contracting consulting services above US\$200,000; and for goods and services where the value of the contracts exceeds US\$250,000. The Bank will carry out its supervision in an ex post manner, in the cases of: (a) acquisition of goods and related services, and for civil works below US\$250,000, and (b) selection of contracting in the case of contracts of US\$50,000 equivalent, or less for individual consultants, and US\$100,000 equivalent or less for consulting firms.